

**Sewer Enterprise Fund of the City of Crescent
Independent Auditors' Report
Basic Financial Statements
Required Supplementary and Other Information
Schedule of Findings**

June 30, 2013 and 2012

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**City of Crescent
Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Shea	Mayor	January 2014
Bob Anderson	Council Member	January 2014
Elvis Jacobsen	Council Member	January 2014
Daryl Clark	Council Member	January 2016
Pat Morgan	Council Member	January 2016
Chuck Stokes	Council Member	Resigned December 2012
Kristine Spratt	Council Member	December 2012 – January 2014
Mary Martin	City Clerk	Indefinite
Vicki Overly	Treasurer	Indefinite



Diane McGrain, CPA
Jim Menard, CPA

December 30, 2013

Independent Auditors' Report

To the Honorable Mayor and
the Members of the City Council
City of Crescent
Crescent, IA 51526

Report on the Financial Statements

We have audited the accompanying financial statements of the Sewer Enterprise Fund of the City of Crescent, as of and for the years ended June 30, 2013 and 2012, and the related Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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December 30, 2013
Sewer Enterprise Fund of the City of Crescent
Independent Auditors' Report

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Enterprise Fund of the City of Crescent at June 30, 2013 and 2012, and the changes in its financial position and the cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information and Other Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 6 through 9, and 21 through 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The other information, the budgetary comparison information on pages 23 through 27, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013 on our consideration of the Sewer Enterprise Fund of the City of Crescent's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sewer Enterprise Fund of the City of Crescent's internal control over financial reporting and compliance.

Schroer & Associates, P.C.

Sewer Enterprise Fund of the City of Crescent Management's Discussion and Analysis

The City of Crescent provides this management's discussion and analysis of its Sewer Enterprise Fund's financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider this information in conjunction with the Fund's financial statements, which follow.

Financial Highlights

- Sewer operating revenues increased \$581, from fiscal 2012 to fiscal 2013.
- Sewer operating expenses decreased \$2,239, from fiscal 2012 to fiscal 2013.
- Sewer net operating income increased \$2,820, from fiscal 2012 to fiscal 2013.
- The Sewer Enterprise Fund's net position increased \$20 to \$985,551.

Using This Annual Report

The Sewer Enterprise Fund's financial statements are presented using accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to of the Sewer Enterprise Fund of the City of Crescent financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's discussion and analysis introduces the financial statements and provides an analytical overview of the Fund's financial activities.

The Statement of Net Position presents information on the Fund's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Fund's operating revenues and expenses, non-operating revenues and expenses and whether the Fund's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Fund's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Fund financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison to the Sewer's budget on the GAAP basis for the year.

Other Information further explains and supports the financial statements with a comparison to the Sewer's budget on the cash basis for the year.

Financial Analysis of the Sewer Enterprise Fund

Statement of Net Position

Net position may serve over time as a useful indicator of the Fund's financial position. The Fund's net position for fiscal 2013 totaled \$985,551 compared to \$985,531 for fiscal 2012. A summary of the Fund's net position is presented below.

	Net Position	
	June 30,	
	2013	2012
Current and other assets	\$ 333,804	\$ 384,225
Capital Assets	<u>1,733,060</u>	<u>1,792,636</u>
	2,066,864	2,176,861
Current Liabilities	61,665	154,940
Long Term Liabilities	<u>1,019,648</u>	<u>1,036,390</u>
	1,081,313	1,191,330
Net Position		
Net investment in capital assets	713,412	740,187
Restricted for:		
Debt reserve	79,229	78,068
Funded depreciation	110,000	99,000
Unrestricted	<u>82,910</u>	<u>68,276</u>
Total net position	<u>\$ 985,551</u>	<u>\$ 985,531</u>

The largest portion of the Fund's net position is investment in capital asset.

Statement of Revenues, Expenses and Changes in Fund Net Position

Operating revenues are received for sewer sales. Operating expenses are expenses paid to operate the sewer systems. Non-operating revenues and expenses are for interest income and expense, grant and other miscellaneous revenue. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in fund net position for the years ended June 30, 2013 and 2012 is presented as follows:

Changes in Net Position		
	June 30,	
	2013	2012
Operating revenues		
Sewer sales	\$ 109,849	\$ 109,268
Operating expenses		
Contract services	557	881
Depreciation	59,576	59,576
Insurance	3,449	2,931
Office	2,509	3,314
Repairs	-	2,368
Salaries and benefits	8,879	8,239
Supplies	400	626
Utilities	2,324	1,998
Total operating expenses	<u>77,694</u>	<u>79,933</u>
Operating income	32,155	29,335
Non-operating revenue (expenses)		
Interest income	172	314
Interest expense	(44,048)	(44,753)
Permits	442	1,050
Grant revenue	22,882	-
Insurance settlement	93,618	-
Repairs paid from legal settlement	(70,887)	-
Lagoon study	(34,314)	-
Net non-operating revenues(expenses)	<u>(32,135)</u>	<u>(43,389)</u>
Changes in net position	20	(14,054)
Net position, beginning of year	<u>985,531</u>	<u>999,585</u>
Net position, end of year	<u>\$ 985,551</u>	<u>\$ 985,531</u>

The Statement of Revenues, Expenses and Changes in Fund Net Position reflects an increase in net position of \$20 from 2012 to 2013.

In fiscal 2013, operating revenues increased by \$581. Operating expenses decreased by \$2,239.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financial investing activities. Cash provided by operating activities includes sewer sales reduced by payments for operations. Cash used by capital and related financial activities includes the acquisition and construction of capital assets and the payment of interest and revenue notes. Cash provided by investing activities includes grants, interest and other income.

Budgetary Highlights

Per the GAAP Basis budget prepared for the United States Department of Agriculture, the Sewer Fund revenue was \$126,154 more than budgeted due to insurance reimbursements and expenditures were \$103,692 more than budgeted due to additional repairs.

During the year, the City amended its cash basis budget one time. The sewer budget was amended for FEMA reimbursements and additional repairs. After the amendment, receipts were \$7,662 more than budgeted and disbursements were \$47,116 less than budgeted.

Capital Assets

A summary of capital assets, net of accumulated depreciation, for the years ended June 30, 2013 and 2012 is as follows:

	June 30,	
		2012
Capital assets	\$ 2,304,433	\$ 2,304,433
Less accumulated depreciation	<u>571,373</u>	<u>511,797</u>
	\$ <u>1,733,060</u>	\$ <u>1,792,636</u>

Depreciation expense totaled \$59,756 for 2013 and \$59,756 for 2012.

Long-Term Debt

At June 30, 2013 and 2012, the Fund had \$1,036,390 and \$1,052,449, respectively, in sewer revenue debt outstanding.

Economic Factors

The City of Crescent's elected and appointed officials considered many factors when setting the fiscal year 2014 budget for the Sewer Fund and the user fees that will be charged to fund operations. The City of Crescent's elected officials review the sewer usage fees on an annual basis. The City officials strive to keep the fees at current rate, while keeping expenses as low as possible.

Contacting the Fund's Financial Management

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Fund's finances and to show the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk of Crescent, Iowa.

Basic Financial Statements

Sewer Enterprise Fund of the City of Crescent
Statements of Net Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current Assets		
Unrestricted		
Cash	\$ 68,881	\$ 132,170
Accounts receivable	3,761	3,169
Unbilled usage	9,326	9,144
Prepaid insurance	1,819	886
Total unrestricted current assets	<u>83,787</u>	<u>145,369</u>
Restricted		
Debt service fund	60,788	60,788
Total restricted current assets	<u>60,788</u>	<u>60,788</u>
Total current assets	<u>144,575</u>	<u>206,157</u>
Capital Assets		
Sewer system	2,278,208	2,278,208
Equipment	26,225	26,225
	<u>2,304,433</u>	<u>2,304,433</u>
Less accumulated depreciation	<u>571,373</u>	<u>511,797</u>
	<u>1,733,060</u>	<u>1,792,636</u>
Other Assets		
Debt reserve fund	79,229	79,068
Funded depreciation	110,000	99,000
	<u>189,229</u>	<u>178,068</u>
Total assets	<u>\$ 2,066,864</u>	<u>\$ 2,176,861</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Payable from unrestricted current assets:		
Accounts payable	\$ 876	\$ 534
Deferred revenue	-	93,618
	<u>876</u>	<u>94,152</u>
Payable from restricted current assets:		
Accrued interest	44,047	44,729
Current portion of long term debt	16,742	16,059
	<u>60,789</u>	<u>60,788</u>
Total current liabilities	<u>61,665</u>	<u>154,940</u>
Long Term Liabilities		
Sewer revenue notes net of current portion	1,019,648	1,036,390
Net Position		
Net investment in capital assets	713,412	740,187
Restricted for:		
Debt reserve	79,229	78,068
Funded depreciation	110,000	99,000
Unrestricted	82,910	68,276
	<u>985,551</u>	<u>985,531</u>
Total liabilities and net position	<u>\$ 2,066,864</u>	<u>\$ 2,176,861</u>

See accompanying notes to financial statements

Sewer Enterprise Fund of the City of Crescent
Statements of Revenues, Expenses and
Changes in Fund Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues		
Sewer sales	\$ 109,849	\$ 109,268
Operating expenses		
Contract services	557	881
Depreciation	59,576	59,576
Insurance	3,449	2,931
Office	2,509	3,314
Repairs	-	2,368
Salaries and benefits	8,879	8,239
Supplies	400	626
Utilities	2,324	1,998
Total operating expenses	<u>77,694</u>	<u>79,933</u>
Operating income	32,155	29,335
Non-operating revenue (expenses)		
Interest income	172	314
Interest expense	(44,048)	(44,753)
Permits	442	1,050
Grant revenue	22,882	-
Insurance settlement	93,618	-
Repairs paid from legal settlement	(70,887)	-
Lagoon study	(34,314)	-
Net non-operating revenue (expenses)	<u>(32,135)</u>	<u>(43,389)</u>
Changes in net position	20	(14,054)
Net position, beginning of year	<u>985,531</u>	<u>999,585</u>
Net position, end of year	<u>\$ 985,551</u>	<u>\$ 985,531</u>

See accompanying notes to financial statements

Sewer Enterprise Fund of the City of Crescent
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 109,048	\$ 108,561
Cash payments for goods and services	(10,169)	(11,313)
Cash payments to employees	(8,879)	(8,239)
Net cash provided by operating activities	<u>90,000</u>	<u>89,009</u>
Cash flows from capital and related financial activities:		
Repair costs paid from legal settlement	(71,164)	(10,032)
Lagoon study paid with grant proceeds	(33,671)	-
Interest paid on revenue notes	(44,730)	(45,384)
Principal paid on revenue notes	(16,059)	(15,404)
Net cash used for capital and related financing activities	<u>(165,624)</u>	<u>(70,820)</u>
Cash flows from investing activities:		
Interest received on investments	172	314
Miscellaneous income received	442	1,050
Grant and donor income received	22,882	52,208
Net cash provided by investing activities	<u>23,496</u>	<u>53,572</u>
Net change in cash	(52,128)	71,761
Cash, beginning of year	<u>371,026</u>	<u>299,265</u>
Cash, end of year	<u>\$ 318,898</u>	<u>\$ 371,026</u>
Cash consists of the following:		
Unrestricted		
Cash	\$ 68,881	\$ 132,170
Restricted		
Debt service fund	60,788	60,788
Debt reserve fund	79,229	79,068
Funded depreciation	<u>110,000</u>	<u>99,000</u>
	<u>\$ 318,898</u>	<u>\$ 371,026</u>
Reconciliation of operating revenue to net cash provided by operating activities:		
Net operating income	\$ 32,155	\$ 29,335
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	59,576	59,576
Net (increase) decrease in:		
Accounts receivable	(592)	(699)
Unbilled usage	(182)	(8)
Prepaid insurance	(933)	326
Net increase (decrease) in:		
Accounts payable	<u>(24)</u>	<u>479</u>
	<u>\$ 90,000</u>	<u>\$ 89,009</u>

See accompanying notes to financial statements

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 1 Summary of Significant Accounting Policies

A. Reporting Entity

These financial statements present only the Sewer Enterprise Fund of the City of Crescent. They do not purport to, and do not present the financial statements of the City of Crescent, Iowa. The Sewer Enterprise Fund is governed by the City Council.

B. Basis of Presentation

Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Sewer revenues are based on billing rates that are applied to customers' accounts based on their consumption of water. The Sewer Enterprise Fund of the City of Crescent's records estimated unbilled revenues at the end of the accounting periods.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 1 Summary of Significant Accounting Policies – Continued

D. Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents – The Sewer Enterprise Fund considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded at the time the service is billed. Unbilled usage for service consumed between the period scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Restricted Assets and Restricted Net Position – Funds set aside for debt service and funded depreciation requirements are classified as restricted.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Capital assets are defined by the Sewer Enterprise Fund as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Sewer system	\$ 5,000
Equipment	2,000

Capital assets of the Enterprise Fund are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Sewer system	40 Years
Equipment	10 years

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information for the GAAP basis budget and Other Information for the cash basis budget. During the years ended June 30, 2013 and 2012, disbursements did not exceed the amounts budgeted on the cash basis. During the year ended June 30, 2013, expenditures exceeded the amount budgeted on the GAAP basis.

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 2 Cash and Investments

The Sewer Enterprise Fund's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Sewer Enterprise Fund is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trust; and warrants or improvement certificates of a drainage district.

The Sewer Enterprise Fund had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3, as amended by Statement No. 40.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 month of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE 3 Capital Assets

A summary of changes in capital assets for the years ended June 30, 2013 and 2012 are as follows:

	Balance 6/30/2011	Additions Depr Exp	Balance 6/30/2012	Additions Depr Exp	Balance 6/30/2013
Sewer System	\$ 2,278,208		2,278,208		2,278,208
Equipment	26,225		26,225		26,225
	<u>2,304,433</u>	<u>-</u>	<u>2,304,433</u>	<u>-</u>	<u>2,304,433</u>
Less accumulated depreciation	452,221	59,576	511,797	59,576	571,373
Capital assets, net	<u>\$ 1,852,212</u>	<u>(59,576)</u>	<u>1,792,636</u>	<u>(59,576)</u>	<u>1,733,060</u>

NOTE 4 Long-Term Debt

A summary of changes in long-term debt for the years ended June 30, 2013 and 2012 is as follows:

	Issue Date	Balance 6/30/2011	Payments	Balance 6/30/2012	Payments	Balance 6/30/2013
Sewer Revenue Notes	9/29/2003	\$ 1,067,853	15,404	1,052,449	16,059	1,036,390

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 4 Long-Term Debt – Continued

The annual debt service requirements to maturity for revenue notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	4.25%	\$ 16,742	44,046	60,788
2015	4.25%	17,453	43,335	60,788
2016	4.25%	18,195	42,593	60,788
2017	4.25%	18,968	41,820	60,788
2018	4.25%	19,774	41,014	60,788
2019-2023	4.25%	112,214	191,726	303,940
2024-2028	4.25%	138,174	165,766	303,940
2029-2033	4.25%	170,140	133,800	303,940
2034-2038	4.25%	209,502	94,438	303,940
2039-2043	4.25%	257,969	45,971	303,940
2044	4.25%	57,259	2,431	59,690
		<u>\$ 1,036,390</u>	<u>846,940</u>	<u>1,883,330</u>

Revenue notes, totaling \$1,036,390 are outstanding at June 30, 2013. These notes bear interest at a rate of 4.25% per annum and mature in varying annual amounts ranging from \$16,000 to \$58,000, with the final maturity due in the year ending June 30, 2044.

The City has pledged future wastewater customer revenues, net of specific operating expenses, to repay \$1,136,000 in sewer revenue notes issued in September 2003. Proceeds from the notes provided financing for the construction and improvements to the wastewater treatment plant. The notes are payable solely from wastewater customer net revenues and are payable through 2044. Annual principal and interest payments on the notes required almost 200 percent of net revenues. The total principal and interest remaining to be paid on the notes is \$1,883,330. For the current year, principal and interest paid and total customer net revenues were \$60,788 and \$32,155, respectively.

The resolutions providing for the issuance of the revenue notes includes the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sinking account for the purpose of making the principal and interest payments when due.
- (c) At the time of delivery of the notes, \$6,500 shall be deposited into a principal and interest reserve account, and \$6,079 each July 1, until a full annual payment of \$60,788 is accumulated. These funds shall be used for the payment of principal and interest on the notes if, for any reason, funds on deposit in the sinking account are insufficient to pay such when due.
- (d) At the time of delivery of the notes, \$11,000 shall be set aside annually to fund depreciation. These funds shall be used to pay for capital improvements to the sewer system.

The Enterprise Fund is in compliance with the resolutions.

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 5 Interest Costs

Interest costs are included in the financial statements as follows:

	<u>06/30/13</u>	<u>06/30/12</u>
Expensed	\$ <u>44,048</u>	\$ <u>44,753</u>

NOTE 6 Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding Third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Enterprise Fund's annual contributions to the Pool for the years ended June 30, 2013 and 2012 were \$1,507 and \$1,015, respectively.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013 and 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Sewer Enterprise Fund of the City of Crescent
Notes to Financial Statements
June 30, 2013 and 2012

NOTE 6 Risk Management - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with a surety bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

Sewer Enterprise Fund of the City of Crescent
Budgetary Comparison Schedule of Revenues and Expenditures
Actual to Budget (GAAP Basis)
(Prepared for the United States Department of Agriculture)
Year Ended June 30, 2013

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Actual Variance</u>
Revenues			
Sewer sales	\$ 109,849	100,500	9,349
Interest	172	309	(137)
Miscellaneous income	93,618	-	93,618
Permits	442	-	442
Grant revenue	22,882	-	22,882
	<u>226,963</u>	<u>100,809</u>	<u>126,154</u>
Expenditures			
Contract services	34,871	1,500	(33,371)
Depreciation	59,576	58,184	(1,392)
Insurance	3,449	3,000	(449)
Interest	44,048	44,047	(1)
Office	2,509	3,000	491
Repairs	70,887	3,000	(67,887)
Salaries and benefits	8,879	7,820	(1,059)
Supplies	400	-	(400)
Utilities	2,324	2,700	376
Total operating expenses	<u>226,943</u>	<u>123,251</u>	<u>(103,692)</u>
Excess of revenues over expenditures	\$ <u>20</u>	<u>(22,442)</u>	<u>22,462</u>

See accompanying independent auditors' report

Sewer Enterprise Fund of the City of Crescent
Budgetary Comparison Schedule of Revenues and Expenditures
Actual to Budget (GAAP Basis)
(Prepared for the United States Department of Agriculture)
Year Ended June 30, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Budget to Actual Variance</u>
Revenues			
Sewer sales	\$ 109,268	112,500	(3,232)
Interest	314	306	8
Miscellaneous income	-	-	-
Permits	1,050	-	1,050
Grant revenue	-	-	-
	<u>110,632</u>	<u>112,806</u>	<u>(2,174)</u>
Expenditures			
Contract services	881	1,000	119
Depreciation	59,576	58,184	(1,392)
Insurance	2,931	3,500	569
Interest	44,753	45,384	631
Office	3,314	3,000	(314)
Repairs	2,368	5,000	2,632
Salaries and benefits	8,239	8,500	261
Supplies	626	1,000	374
Utilities	1,998	3,000	1,002
Total operating expenses	<u>124,686</u>	<u>128,568</u>	<u>3,882</u>
Excess of revenues over expenditures	<u>\$ (14,054)</u>	<u>(15,762)</u>	<u>1,708</u>

See accompanying independent auditors' report

Other Information

Sewer Enterprise Fund of the City of Crescent
Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances
Actual to Budget (Cash Basis)
Other Information
Year Ended June 30, 2013

	Actual	Budgeted Amounts		Final to Actual Variance
		Original	Final	
Receipts				
Use of money and property	\$ 172	-	-	172
Intergovernmental	22,882	-	22,882	-
Charges for services	109,048	102,000	102,000	7,048
Miscellaneous	442	-	-	442
Total receipts	<u>132,544</u>	<u>102,000</u>	<u>124,882</u>	<u>7,662</u>
Disbursements				
Business type activities	<u>184,672</u>	<u>161,788</u>	<u>231,788</u>	<u>47,116</u>
Excess (deficiency) of receipts over (under) disbursements	(52,128)	<u>(59,788)</u>	<u>(106,906)</u>	<u>54,778</u>
Balance beginning of year	<u>371,026</u>			
Balance end of year	<u>\$ 318,898</u>			

See accompanying independent auditors' report

Sewer Enterprise Fund of the City of Crescent
Accrual to Cash Reconciliation
Other Information
Year Ended June 30, 2013

	<u>Accrual Basis</u>	<u>Accrual Adjust- ments</u>	<u>Cash Basis</u>
Revenue/receipts	\$ 226,963	(94,419)	132,544
Expenditures/disbursements	<u>226,943</u>	<u>(42,271)</u>	<u>184,672</u>
Net	20	(52,148)	(52,128)
Net position/fund balance beginning of year	<u>985,531</u>	<u>(614,505)</u>	<u>371,026</u>
Net position/fund balance end of year	<u>\$ 985,551</u>	<u>(666,653)</u>	<u>318,898</u>

See accompanying independent auditors' report

Sewer Enterprise Fund of the City of Crescent
Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances
Actual to Budget (Cash Basis)
Other Information
Year Ended June 30, 2012

	<u>Actual</u>	<u>Original Budget</u>	<u>Budget to Actual Variance</u>
Receipts			
Use of money and property	\$ 314	-	314
Intergovernmental	52,208	-	52,208
Charges for services	108,561	114,000	(5,439)
Miscellaneous	1,050	-	1,050
Total receipts	<u>162,133</u>	<u>114,000</u>	<u>48,133</u>
Disbursements			
Business type activities	<u>90,372</u>	<u>174,788</u>	<u>84,416</u>
Excess (deficiency) of receipts over (under) disbursements	71,761	<u>(60,788)</u>	<u>132,549</u>
Balance beginning of year	<u>299,265</u>		
Balance end of year	<u>\$ 371,026</u>		

See accompanying independent auditors' report

Sewer Enterprise Fund of the City of Crescent
Accrual to Cash Reconciliation
Other Information
Year Ended June 30, 2012

	<u>Accrual Basis</u>	<u>Accrual Adjust- ments</u>	<u>Cash Basis</u>
Revenue/receipts	\$ 110,632	51,501	162,133
Expenditures/disbursements	<u>124,686</u>	<u>(34,314)</u>	<u>90,372</u>
Net	(14,054)	85,815	71,761
Net position/fund balance beginning of year	<u>999,585</u>	<u>(700,320)</u>	<u>299,265</u>
Net position/fund balance end of year	<u>\$ 985,531</u>	<u>(614,505)</u>	<u>371,026</u>

See accompanying independent auditors' report

Sewer Enterprise Fund of the City of Crescent
Notes to Other Information – Budgetary Reporting
Years Ended June 30, 2013 and 2012

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. The budget for the Sewer Enterprise Fund only is reflected in the budgetary comparison schedules. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2013 the budget was amended to increase sewer receipts by \$22,882 and sewer disbursements by \$70,000.

During the years ended June 30, 2013 and 2012, the disbursements did not exceed the budgeted amounts.

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***



Diane McGrain, CPA
Jim Menard, CPA

December 30, 2013

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council:

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Sewer Enterprise Fund of the City of Crescent, as of and for the years ended June 30, 2013 and 2012, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Sewer Enterprise Fund of the City of Crescent's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Crescent's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Crescent's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Sewer Enterprise Fund of the City of Crescent's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings to be a material weakness.

Continued...

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Sewer Enterprise Fund of the City of Crescent
Report on Internal Control

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sewer Enterprise Fund of the City of Crescent's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Enterprise Fund's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Crescent's Responses to Findings

City of Crescent's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Crescent's responses and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Crescent during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schaefer & Associates, P.C.

**Sewer Enterprise Fund of the City of Crescent
Schedule of Findings
Year Ended June 30, 2013**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, posting of the cash receipts to the cash receipts journal, reconciling and financial reporting are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – The City Treasurer reviews the monthly bank statements and bank reconciliations along with computer generated check registers and deposit listings.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**Sewer Enterprise Fund of the City of Crescent
Schedule of Findings
Year Ended June 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget

Disbursements during the year ended June 30, 2013 did not exceed the amended amount budgeted.

II-B-13 Questionable Disbursements

We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-13 Travel Expense

No disbursements of Enterprise Fund money for travel expenses of spouses of Enterprise Fund officials or employees were noted.

II-D-13 Business Transactions

No business transactions were noted between the Enterprise Fund and City officials or employees.

II-E-13 Bond Coverage

Surety bond coverage of Enterprise Fund officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-13 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-13 Deposits and Investments

We noted no instances of noncompliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-13 Revenue Notes

The City is in compliance with the provisions of the sewer bond resolutions.